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Fifth progress report on the adoption of the International Public Sector Accounting Standards by the United Nations

Report of the Secretary-General

Summary

The implementation of International Public Sector Accounting Standards (IPSAS) at the United Nations is on target for 1 July 2013 for peacekeeping operations and for 1 January 2014 for the other operations of the United Nations Secretariat. The present report covers the work that is under way, plans for the remainder of the IPSAS project, and how this work is being proactively managed in order to mitigate identified risks that could lead to potential slippages in timelines.

The General Assembly, in its resolution 60/283, approved the adoption of IPSAS for presenting the financial statements of the United Nations. The Secretary-General submitted the first progress report on the adoption of IPSAS to the General Assembly in 2008 (A/62/806), followed by reports in 2009 (A/64/355), 2010 (A/65/308) and 2011 (A/66/379). The present report reviews the progress of IPSAS implementation at the United Nations and throughout the United Nations system during the period from 1 September 2011 to 31 August 2012.

As at 31 December 2011, 11 of 24 organizations within the United Nations system had completed IPSAS implementation, and had received an unqualified audit opinion on their financial statements. Implementation is on schedule for 12 of the remaining 13 organizations, including the United Nations Secretariat, while one organization decided to postpone its implementation to 2014 after assessing preparedness for a 2013 implementation.

The General Assembly is requested to take note of the present report.

* A/67/150.

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I. Introduction

1. The adoption of International Public Sector Accounting Standards (IPSAS) was recommended by the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination on 30 November 2005 to improve the quality, comparability and credibility of financial reporting across the United Nations system.

2. In 2006, the High-level Committee established a jointly funded system-wide project to support a harmonized approach to IPSAS implementation across United Nations system organizations. Under that approach, each system organization is responsible for its IPSAS implementation, facilitated and guided by a system-wide IPSAS project team.

3. In 2006, the General Assembly, by its resolution 60/283, approved the adoption of IPSAS by the United Nations. The project is on target for delivering IPSAS-compliant financial statements by 30 September 2014 for peacekeeping operations for the period ending 30 June 2014 and by 31 March 2015 for other Secretariat operations for the biennium 2013-2014.

4. The present report reviews the progress of both the United Nations and system-wide projects for the period from 1 September 2011 to 31 August 2012. Progress at the United Nations is described in section II, system-wide progress is covered in section III, and actions to be taken by the General Assembly are set out in section IV.

II. Implementation of the International Public Sector Accounting Standards at the United Nations

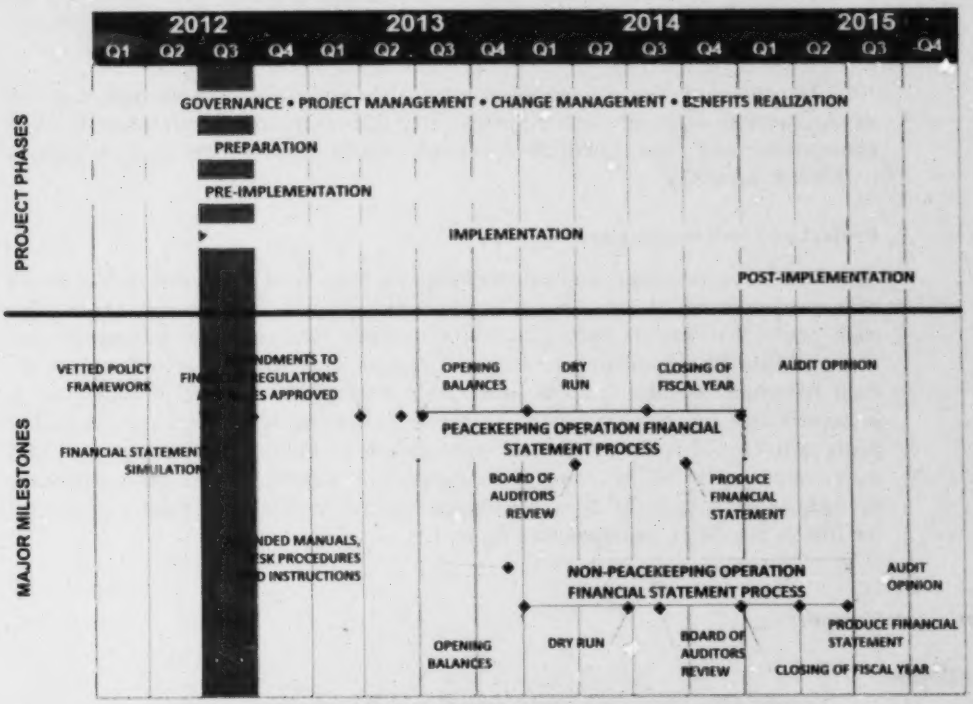
A. Overview

5. The project's focus has recently shifted from policy and central planning to the implementation work by local IPSAS teams at offices away from Headquarters, regional commissions, field and special political missions and other offices. This work, executed locally throughout the Secretariat, is collaboratively planned for consistency and monitored at Headquarters, where the central IPSAS team, consisting of policy specialists, trainers and a project management office, has been responsible for policy and planning and support for informed governance by senior management.

6. The transition from policy formulation to implementation has brought forth additional challenges beyond the determination of the opening balances of assets. Significant work has been done to identify, mitigate and monitor risks at individual locations that may affect the successful implementation of IPSAS. In particular, the following are closely monitored, owing to their significant impact on the project's success: (a) determining opening balances of assets; (b) recording assets completely and accurately; (c) mobilizing and training staff to embrace IPSAS-triggered changes; (d) addressing the complexity of accounting transactions under IPSAS; and (e) the timely implementation of the enterprise resource planning system (Umoja). Project plans at all levels are periodically reviewed and updated to take note of evolving circumstances, including the progress of the Umoja project.

7. Figure I shows the major project phases for each quarter to the end of 2015, as well as the major milestones, separately for peacekeeping and non-peacekeeping operations. These are covered in detail in the remainder of the report.

Figure I
Major project phases, 2012-2015



B. Ongoing activities across all phases

Governance

8. In December 2011, the General Assembly, in its resolution 66/246, requested the Secretary-General to exercise strict oversight over the implementation of the IPSAS project to ensure prudent stewardship of project resources and to establish clear lines of reporting and effective mechanisms for the rapid resolution of issues on a day-to-day basis. Owing to the strong interdependency of the IPSAS and Umoja projects, the Management Committee regularly considers the projects' progress jointly, using a risk-management approach. During the reporting period, the Committee approved the implementation of transitional arrangements to mitigate the impact of Umoja deployment challenges, reviewed the engagement with the Board of Auditors, including addressing the Board's recommendations related to the project, and enlisted the active support of the heads of departments, offices, regional commissions and field missions to closely monitor IPSAS implementation.

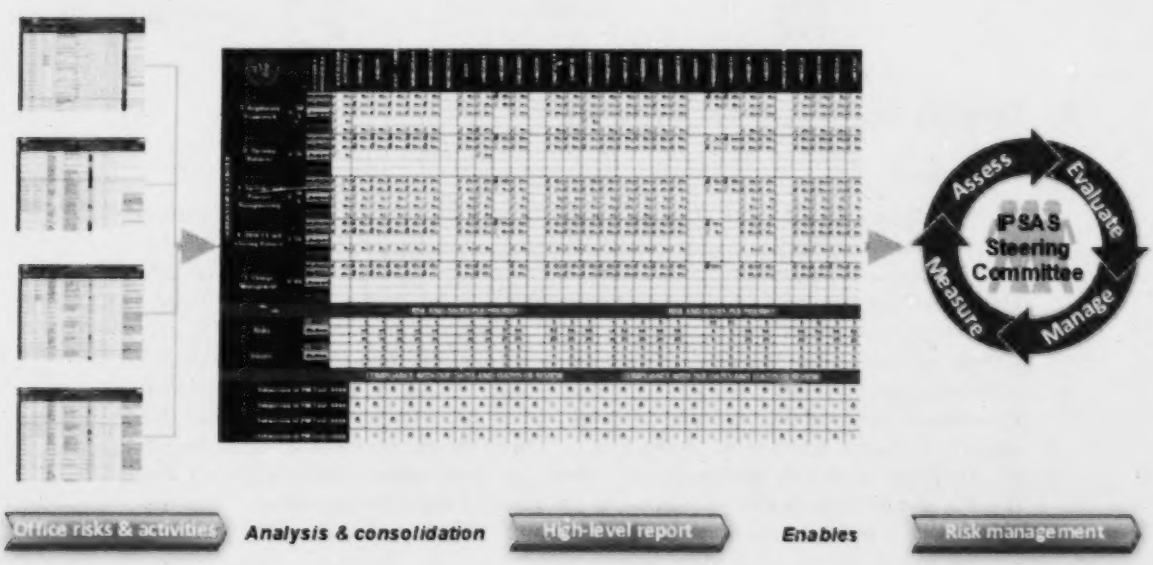
9. The IPSAS Steering Committee continues to steer the project, focusing on managing key risks and monitoring implementation progress. Risks and progress are reviewed each month using a consolidated report (see figure II) covering all location-specific risks and progress updates (prepared in the Project and risk management section). During the reporting period, the Steering Committee endorsed the IPSAS policy framework, directed the development of transitional arrangements to support IPSAS in view of the delay in the deployment of Umoja, approved the IPSAS implementation plan and endorsed the development of the IPSAS benefit-realization plan.

10. The Board of Auditors has observed that the action taken to strengthen senior management arrangements was a positive step demonstrating the necessary level of commitment and engagement at a suitably senior level in the United Nations (A/67/168, para. 83).

Project and risk management

11. Using best practices, implementation plans have been developed in five layers of increasing detail. Master plans at Headquarters provide the basis for: (a) plans for each entity that has its own financial statements, showing the delineation and responsibility of tasks among activity participants; and (b) more granular plans for each reporting location (offices away from Headquarters, field missions, etc.), presented as a log of activities to be performed, along with risks and mitigation plans to track and update. A project management tool and a risk management tool were rolled out to all locations, with capability to collate information whenever needed. As from April 2012, such collation has commenced for monthly review by the IPSAS Steering Committee (see figure II).

Figure II
Project monthly reporting



12. This reporting structure makes possible detailed ongoing monitoring of project progress and risks centrally as well as locally, as well as coordination of project activities and sharing of information, such as risk mitigation strategies among teams. As new risks are uncovered locally or centrally, this structure ensures that they are documented in a standardized way so that, overall, risks can be better analysed, communicated and mitigated.

13. To lend a sharper focus to implementation in field missions, as reported in 2011, the Department of Field Support established a team at Headquarters with overall responsibility for coordinating implementation in the field. That team maintains close liaison with the central IPSAS team, providing a field-based perspective for all implementation plans and activities.

14. Local teams have also been established at all reporting locations, with clear terms of reference and roles and responsibilities relating to each deliverable. The teams manage their respective plans, and are responsible, inter alia, for reporting progress, analysing potential local risks to create mitigation plans, training, strengthening local communication on IPSAS and addressing related audit issues in consultation with Headquarters.

15. The Board has acknowledged the roll-out of the project and risk management tools as positive steps and has also observed that the Administration is focused on achieving its target deadlines and is adjusting its strategy and detailed plans to react positively to the changing circumstances created by the delays in developing Umoja (A/67/168, para. 52).

Change management

16. Although ostensibly affecting only the preparation of financial statements, IPSAS significantly affects many operations of the Secretariat. Changes in policies and procedures have an effect on many current processes and practices and, in turn, the people involved in such business processes and practices. For example, operational decisions of property managers relating to assets such as information technology equipment could affect recognition, measurement and disclosures in the financial statements. In most areas, IPSAS adoption also involves greater scrutiny and review by the Board to support its audit opinion on the financial statements.

17. Because of the widespread changes triggered by IPSAS and the necessity of establishing and sustaining robust, auditable processes to prove the accuracy of the information forming the basis of the financial statements, a strong change management function becomes key for successful transition to IPSAS and "accrual accounting".

18. As the IPSAS project moves through the pre-implementation, implementation and post-implementation phases, the focus of change management will continually change. Within the pre-implementation phase, there has been a shift from general awareness to a sense of urgency in getting ready for implementation. With the increasing proximity of the implementation date, project management and risk management have acquired sharper focus in the transition from pre-implementation to implementation; the additional challenge of implementing IPSAS before and after full Umoja deployment has sharpened the attention given to risk management. Although benefit-realization planning has commenced, change management will

focus sharply on benefit realization only during the transition to the post-implementation period.

19. Change management efforts are discussed in more detail in the sections on the relevant project phases. In 2011, the Advisory Committee on Administrative and Budgetary Questions encouraged the Secretary-General to actively pursue efforts to develop a business culture focused on improved performance and effectiveness as the Organization prepares for its transition to IPSAS (A/66/536, para. 22). The Board of Auditors (A/67/168) observed that the United Nations communication plan was well developed, included all the key stakeholders and identified actions for their involvement in the business transformation. The Board encouraged the Administration to test during the roll-out whether all United Nations staff had a common and shared commitment to the IPSAS project. The Board also noted that the appointment of a change manager in August 2011 to oversee implementation of the training plan was a welcome strengthening of the arrangements for business transformation.

Benefit realization

20. In December 2011, in its resolution 66/246, the General Assembly requested the Secretary-General to ensure full realization of the benefits associated with the implementation of the Standards. Earlier, the Secretary-General, in his report on investing in the United Nations for a stronger Organization (A/60/846/Add.3 (on financial management)), had identified five key benefits of adopting IPSAS: (a) alignment with best practices, (b) improved stewardship of assets and liabilities, (c) availability of more comprehensive information on costs, (d) improved consistency and comparability and (e) increased transparency and accountability.

21. The Board of Auditors recommended that all United Nations entities: (a) define and plan for the benefits expected from the information that will be available under IPSAS; (b) establish clear accountability for benefit delivery; (c) establish mechanisms to track benefit delivery; and (d) keep senior management and governing bodies apprised of progress towards their realization (A/67/168). Specifically for the United Nations, the Board had previously recommended that it establish an IPSAS benefit-realization plan and Organization-wide change management programme for IPSAS, to set out the changes and benefits that IPSAS will bring, and how senior management in every department and office must take ownership and drive the delivery of the intended benefits (A/66/151).

22. Following the Board's recommendation, benefit-realization planning was brought forward in the IPSAS project plan; a detailed structure for the plan was approved by the IPSAS Steering Committee in March 2012. The Board has observed that the proposed structure and coverage of the plan are broadly in line with best practice to reliably measure benefits, and that the implementation will be assessed in 2013.

23. The plan will be developed during the third and fourth quarters of 2012; an initial iteration is expected to be finalized for the IPSAS Steering Committee's approval by December 2012. Because of the linkages of many IPSAS benefits with the enabling capabilities of Umoja, the plan will be developed in collaboration with the Umoja project to synergize the plans of both projects and avoid duplication or inconsistency in the benefit-realization planning as well as tracking and reporting. The plan will be presented to the Management Committee for endorsement.

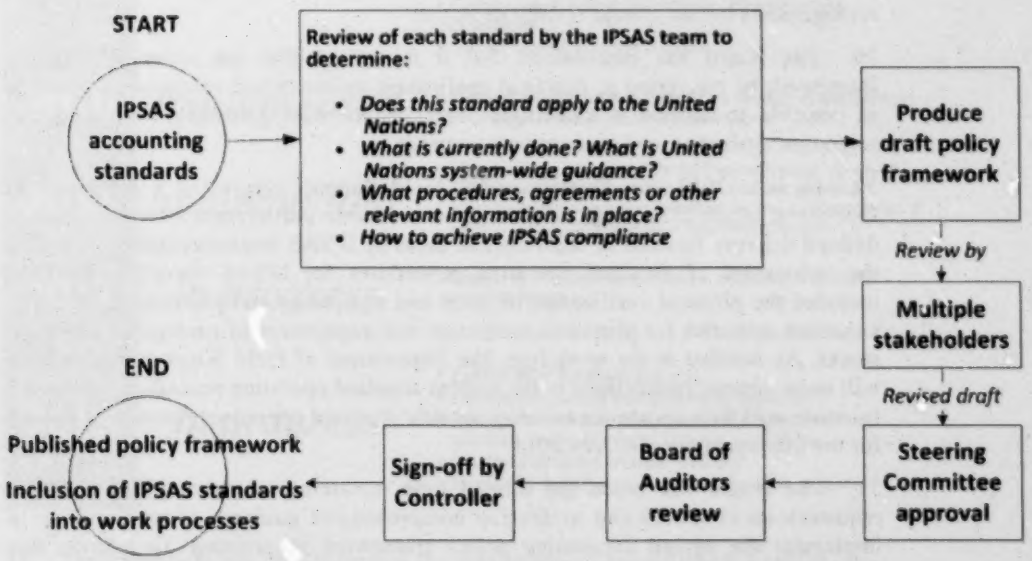
C. Preparation phase

24. The preparation phase includes analyses of gaps in policies and procedures (including systems), policy framework development, training development, progressive implementation and finalization of the new format of the financial statements.

Policy framework that is compliant with the International Public Sector Accounting Standards

25. IPSAS is a body of principle-based standards to be adapted to the circumstances of each organization so that the IPSAS-compliant financial statements present a fair picture of the organization's financial performance and position. The complex nature of the Secretariat's operations have affected the formulation of a comprehensive policy framework to guide the accounting on transactions for each area affected by the Standards. After extensive consultation with different stakeholders, including offices away from Headquarters, regional commissions, departments and offices at Headquarters, such as the Department of Field Support, the Office of Legal Affairs and the Office of Central Support Services, and in close collaboration with Umoja and the Office of Internal Oversight Services, an IPSAS policy framework was finalized and approved by the Controller, as planned. The complex and time-consuming process is detailed in figure III.

Figure III
Process for producing the policy framework


START
IPSAS accounting standards
Review of each standard by the IPSAS team to determine:
Does this standard apply to the United Nations?
What is currently done? What is United Nations system-wide guidance?
What procedures, agreements or other relevant information is in place?
How to achieve IPSAS compliance
Produce draft policy framework
Review by
Multiple stakeholders
Revised draft
Steering Committee approval
Board of Auditors review
Sign-off by Controller
Published policy framework
Inclusion of IPSAS standards into work processes
END

26. Based on lessons learned in other organizations, disseminated by the High-level Committee on Management Task Force on Accounting Standards, the policy framework was discussed with the Board to ensure that it was in agreement with

how the standards would be applied to the circumstances of the United Nations. Some of the policies and guidance in the framework had to be modified on the basis of the Board's suggestions and concerns in areas such as the scope of inventories, capitalization of long-term rights to use property, trigger point for depreciation (of property, plant and equipment), the basis for segment reporting and the application of transitional provisions to intangible assets.

27. The framework, which considers and builds on the United Nations system-wide platform of harmonized policies, includes model financial statements for volume I which covers regular budget and extrabudgetary activities, and special political missions, and volume II which covers peacekeeping operations. As implementation progresses, the framework will be used as a reference guide by staff and is expected to influence the treatment of transactions and the financial reporting of operations. The framework, which has already been used to incorporate IPSAS requirements into the design of Umoja, will be a "living" document that will be updated and enriched, especially on the basis of feedback from key stakeholders, such as financial statement preparers and users, and the Board. Operational challenges and Umoja design considerations may also force a review of approved policies in certain cases; however, these are expected to be relatively few and minor in effort and impact.

28. More detailed guidance, including a manual, and new or amended standard operating procedures, are being developed to guide the specific application of IPSAS requirements to transactions and events of daily operations. As these standard operating procedures are closely linked to and largely dependent on business processes to be embedded in Umoja, they have to be developed collaboratively. Some of them will also have to address the transitional arrangements before Umoja is fully deployed.

29. The Board has emphasized that it is critical that the accounting policy framework be converted to practical application guidance and rolled out as quickly as possible to achieve a meaningful exercise for data gathering, cleansing and migration against agreed accounting principles.

30. In June 2012, the Department of Field Support conducted a workshop in Entebbe at which close to 50 finance and non-finance participants from 24 missions defined the way forward in eight critical areas of IPSAS implementation, including the refinement of standard operating procedures for IPSAS compliance. These included the physical verification of plant and equipment and expendable property, valuation scenarios for plant and equipment and impairment of strategic deployment stocks. As decided at the workshop, the Department of Field Support IPSAS team will issue generic instructions in the topical standard operating procedures areas and missions will then update the mission-specific standard operating procedures in time for the implementation in July 2013.

31. The Board also noted the limited time remaining to train staff in the new requirements of IPSAS and to develop comprehensive guidance to staff on how to implement the agreed accounting policy framework in practice. To address this concern, the central IPSAS team has recently started regular videoconferences with stakeholders at offices away from Headquarters and regional commissions to discuss details of the IPSAS policies and to support application to office-specific contexts. Online collaboration tools, including discussion forums, have also been established to facilitate the sharing of knowledge and experience. Further, a pragmatic, risk-

based approach is being taken by setting up a policy helpline to mitigate the risk of inconsistencies caused by the lack of detailed guidance in some cases.

Progressive implementation

32. The Task Force had recommended that organizations adopt a progressive implementation strategy, wherever feasible, to reduce risks arising from the complexity and scale of final IPSAS implementation. Under this approach, individual standards are complied with in successive fiscal cycles prior to full IPSAS implementation.

33. The United Nations had embraced this strategy, focusing initially on implementing IPSAS requirements not requiring enhancements to existing information systems. This approach was also encouraged by the Advisory Committee on Administrative and Budgetary Questions (see A/66/536). Figure IV shows the requirements implemented each year and the plans for the period before full IPSAS implementation.

Figure IV
Progressive implementation of IPSAS

Year	Status	IPSAS requirements
2009	*Implemented*	• Recognition of liabilities for after-service health insurance, repatriation, annual leave and unused vacation days on an actuarial basis • Rationalization of costs to be capitalized for work in progress of the capital master plan • Disclosure of in-kind premises for peacekeeping operations • Disclosures of contingent liabilities
2010	*Implemented*	• Disclosure of in-kind contributions related to waived fees and taxes for peacekeeping operations
2011	*Implemented*	• Disclosures of investments for the cash pool, covering credit, liquidity and interest-rate risks, along with a statement of assets and liabilities for the cash pool and a profile of the cash pool by investment product
2012	*In progress*	• Details on real estate portfolios, including leasehold arrangements
2013	*In progress*	• Events after the reporting date • Disclosures on key management personnel • Recognition and disclosures of employee benefits liabilities under appendix D to the Staff Rules • Disclosures of expendable property • Increased disclosures of non-expendable property

34. This approach has also triggered the realization of some IPSAS benefits. For example, the quantification of the after-service health insurance liability triggered the review of the underlying funding arrangements with a view to rationalizing them. Similarly, the disclosure of contributions in kind and contingent liabilities created a greater awareness of the need to track such information systematically.

More recently, the disclosures relating to investments focused greater attention on the risk profile of investments.

D. Pre-implementation phase

35. The pre-implementation phase comprises mainly activities that build the foundation to support successful IPSAS implementation. These include amending the Financial Regulations and Rules to support IPSAS, validating the feasibility of implementing new policies, simulating preparation of financial statements, data cleansing and enrichment for opening balances of assets and liabilities and change management. The progress of the more important activities in this phase is elaborated on below.

Amendments to the Financial Regulations and Rules

36. IPSAS adoption necessitates amendments to the Financial Regulations and Rules. The amendments to the Financial Regulations have been identified and formulated through a broad consultative process. They will be presented to the General Assembly for its approval during the main part of the sixty-seventh session. This approval will enable the revised financial regulations to take effect from the respective dates of IPSAS implementation for the peacekeeping and other operations of the Secretariat. Amendments to the Financial Rules will be promulgated following the approval of the Financial Regulations.

Validation (pre-implementation) exercises

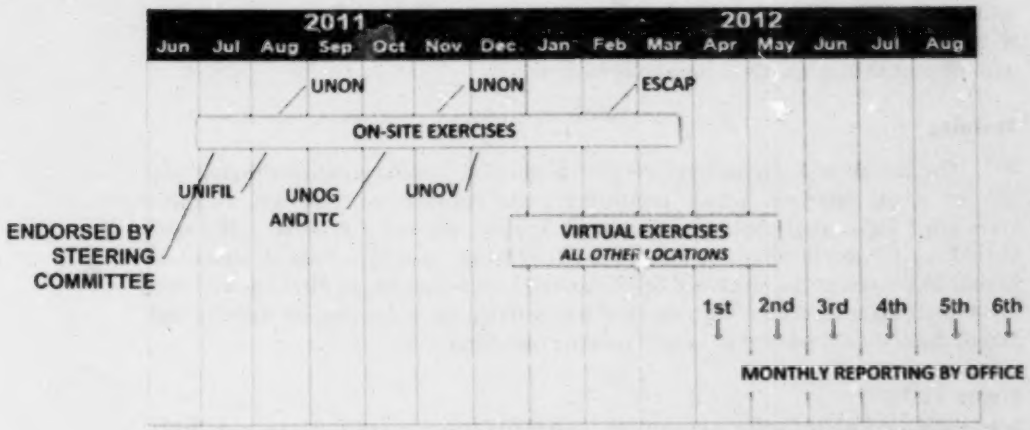
37. To ensure that new policies can be implemented and that major gaps in policies, procedures or systems have not remained undetected, a series of pre-implementation validation exercises were undertaken in different offices representative of the diverse environments of the Secretariat (see figure V). Each selected office undertook a practical review of the IPSAS policy framework to validate against local operations, examined various valuation methodologies for assets, and reviewed the format of the IPSAS financial statements and chart of accounts for the entities for which it manages the financial statement preparation process.

38. These exercises confirmed the need for processes to capture the non-financial information required by IPSAS and helped identify additional issues requiring IPSAS-compliant solutions, such as updates to the draft chart of accounts. The validation exercises also triggered the establishment of the local team structure to support the IPSAS implementation. The structure comprises a cross-functional IPSAS support team, with structured terms of reference, a set of pre-defined tasks with timelines to guide the implementation locally, tools to deploy the tasks and manage associated risks, and training to support the ongoing transformation to IPSAS.

39. IPSAS support teams have been established at all offices away from Headquarters, regional commissions and field missions. They include an executive sponsor as the "transition owner" at the office level, a coordinator responsible for effective engagement and coordination across all areas affected by IPSAS, a project manager responsible for the timely implementation of tasks and the proactive management of risks and subject matter experts to lead the effort to implement the

tasks. The establishment of the support teams has paved the way for progressive local ownership of IPSAS implementation and more rigorous project management.

Figure V
Pre-implementation exercises



Abbreviations: ESCWA, Economic and Social Commission for Western Asia; ESCAP, Economic and Social Commission for Asia and the Pacific; ITC, International Trade Centre; UNIFIL, United Nations Interim Force in Lebanon; UNOG, United Nations Office at Geneva; UNOV, United Nations Office at Vienna; UNON, United Nations Office at Nairobi.

Financial statement simulation

40. The financial statement simulation calls for the application of the IPSAS policy framework, the new financial statements format and the chart of accounts, and the processes that have been developed to capture new information for IPSAS, to the most recent United Nations system accounting standards financial statements in order to produce IPSAS-compliant financial statements to the extent feasible. The exercise will provide "practice" in the preparation of IPSAS-compliant financial statements, while also testing the framework of arrangements being developed to support the Organization's transition to Umoja and the implementation of IPSAS prior to full Umoja deployment.

41. The simulation for peacekeeping operations in early 2012 influenced the improvements in the year-end closing instructions for 2011/12 and provided input for the changes to Galileo that are necessary to support IPSAS. The simulation for other operations, now in progress, is anticipated to end by December 2012.

Change management

42. During the pre-implementation phase, a number of change-management activities have taken front stage. At senior managerial levels, including the Management Committee, change management is focused on timely implementation and the risks associated with IPSAS adoption without Umoja being fully deployed.

43. At other managerial levels, change management is focused on conveying the urgency of preparatory activities needed to meet the implementation deadline and on the enormity of the work ahead, considering the resource-constrained environment.

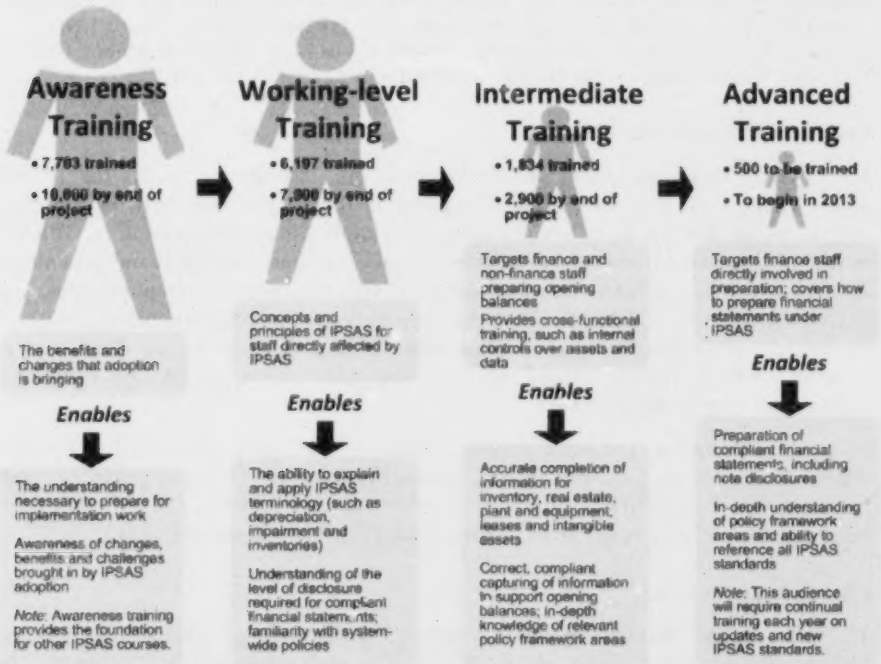
These briefings are intended to ensure that managers can direct and support the work of their staff.

44. At operational levels, the focus has been on communicating the challenges and the importance of data cleansing and enrichment to support the timeliness, completeness, accuracy and auditability of the financial and non-financial information that will be fed into the IPSAS financial statements to meet the rigorous review of the Board, which will be expressing an audit opinion, annually, including with respect to matters not hitherto reported on.

Training

45. The design and deployment of IPSAS training was determined through two sets of needs analysis, which prioritized gaps between existing and required knowledge for various positions. The initial analysis showed that about 1,500 staff should receive intermediate, working-level conceptual training, of which about 500 should be trained at the advanced level. A more recent analysis in 2011 showed that 2,900 staff should receive the intermediate, working-level conceptual training and 500 of them should receive advanced training (see figure VI).

Figure VI
International Public Sector Accounting Standards training (as at 31 August 2012)


Awareness Training
• 7,783 trained
• 10,000 by end of project
The benefits and changes that adoption is bringing
Enables
The understanding necessary to prepare for implementation work
Awareness of changes, benefits and challenges brought in by IPSAS adoption
Note: Awareness training provides the foundation for other IPSAS courses.
Working-level Training
• 6,197 trained
• 7,000 by end of project
Concepts and principles of IPSAS for staff directly affected by IPSAS
Enables
The ability to explain and apply IPSAS terminology (such as depreciation, impairment and inventories)
Understanding of the level of disclosure required for compliant financial statements; familiarity with system-wide policies
Intermediate Training
• 1,834 trained
• 2,900 by end of project
Targets finance and non-finance staff preparing opening balances
Provides cross-functional training, such as internal controls over assets and data
Enables
Accurate completion of information for inventory, real estate, plant and equipment, leases and intangible assets
Correct, compliant capturing of information to support opening balances; in-depth knowledge of relevant policy framework areas
Advanced Training
• 500 to be trained
• To begin in 2013
Targets finance staff directly involved in preparation; covers how to prepare financial statements under IPSAS
Enables
Preparation of compliant financial statements, including note disclosures
In-depth understanding of policy framework areas and ability to reference all IPSAS standards
Note: This audience will require continual training each year on updates and new IPSAS standards.

Note: IPSAS training as at 31 July 2012. Awareness training is required before other courses are taken. Awareness and working-level training are delivered through computer-based, online courses, while intermediate and advanced training are delivered in instructor-led, classroom settings in a number of locations.

46. The number and the geographic dispersion of the trainee population made it imperative to implement a train-the-trainer programme; 130 finance and non-finance staff from various offices have already received up to eight days' training as trainers. These trainers will drive several change-management efforts, including training, and will also be part of the support structure when practical implementation challenges stretch the resources of the local IPSAS teams.

47. As most IPSAS-related business processes are to be eventually effected through Umoja, the two projects will collaborate to ensure that Umoja training materials and desk procedures incorporate relevant IPSAS information, such as revenue recognition, IPSAS-compliant posting rules and so on.

Data preparation

48. One of the biggest challenges in IPSAS implementation across the United Nations system has been the preparation of accurate opening balances of assets and liabilities, which involves a combination of data cleansing and data enrichment (gathering new information). The challenge is compounded for the United Nations, on the one hand, by the volume and value of its assets which makes the tolerance for errors in such balances very low; on the other hand, the current state of property management, including the lack of uniform or integrated management policies and systems across United Nations operations, increases the probability of errors. Consequently, as part of the risk mitigation efforts, collaboration had been initiated in 2011 with the Office of Internal Oversight Services for support in identifying potential issues for the administration's attention. While the Office continues to provide this valuable support in detecting and correcting problems early, the Office of Central Support Services is actively reviewing the property management policies and practices.

49. The Board has also stressed that the shortage of time and the difficulty of gathering timely, accurate, complete and reliable IPSAS-compliant accounting data from locations around the world, particularly with respect to asset and inventory records, places successful IPSAS implementation at the United Nations at higher risk.

50. Significant work has been undertaken to devise approaches to minimize the risk of incomplete or inaccurate opening balances. In recognition of the complexity of making the transition to IPSAS, especially the challenges of collecting reliable information on assets such as property, plant and equipment, some of the 32 standards have transitional provisions that provide additional time (up to five years after initial implementation) to gradually meet the full requirements of those standards. As reported earlier, the United Nations has decided to very selectively invoke transitional provisions in significantly challenging areas so as to address unexpected issues encountered in gathering data.

51. The Advisory Committee on Administrative and Budgetary Questions reported that, while recognizing the need to selectively invoke transitional provisions for certain standards in order to mitigate risks, it trusted that every effort would be made to reflect property, plant and equipment items on time in the opening balances (A/66/536). Such efforts are in progress. The preparation of accurate opening balances is being approached from two perspectives, namely: (a) ensuring that the inventory of assets is complete and verifiable, and (b) valuing the assets using methodologies that reduce complexity while being acceptable to the Board.

52. Significant progress was made during the past year in building first-time inventories of real estate (land and buildings) and leased property, and donated rights-to-use arrangements. An initial view of an IPSAS-compliant fixed assets register for plant and equipment has also been recently compiled. Both sets of data will have to be progressively validated to meet the materiality standards of the Board for certification of the financial statements

53. The first two quarterly inventories of real estate assets have been completed by all missions, offices away from Headquarters and regional commissions. Physical verification of other assets and cleansing of asset data have been ongoing at all missions, with physical verification percentage improving from 91 per cent in 2010 to 97 per cent in June 2012. Each office away from Headquarters and regional commission has also created a register of IPSAS-compliant fixed assets and has scoped its inventory holdings. In field missions, audit observations related to assets and inventory are being carefully addressed and efforts are being intensified in the areas of physical verification and cleansing of data on plant and equipment, including clearing write-off and disposal backlogs.

54. The Department of Field Support has also been working on a standardized valuation methodology for real estate assets for opening balances. The Board has expressed its initial support for the valuation methodology for real estate assets in field missions; the valuation methodology will be applied centrally at Headquarters, based on the inventory of real estate data being compiled through the missions. However, the valuation of real estate at other locations poses a challenge, due to the cost implications of professional external valuations. This risk is being reviewed to determine the best mitigation.

55. The valuation of other assets in field missions is also being simplified by developing a standard cost approach using field mission data. This approach has also been discussed with the Board and factored into the additional data elements to be captured in Galileo to support the reasonableness of the standard cost.

56. The valuation of inventory continues to pose a significant risk owing largely to the lack of systems in field missions for some inventory items, such as fuel and rations, and the lack of asset management functionality in the Integrated Management Information System (IMIS) for Headquarters and offices away from Headquarters. While some of the latter have ancillary systems for managing their assets, including inventory, these systems are not standardized, complicating their use for generating reliable values for accounting. The risk is compounded by the fact that the IPSAS standard relating to inventory has no provisions for transition, making it important to deploy a system (or workaround) by 1 July 2013 for peacekeeping and 1 January 2014 for all other operations. The IPSAS and Umoja projects are collaborating closely, with relevant stakeholders such as the Office of Central Support Services, the Department of Field Support and offices away from Headquarters to ensure that this significant risk can be mitigated and managed.

E. Implementation phase

57. In its resolution 66/246, the General Assembly requested the Secretary-General to ensure that the IPSAS implementation is completed no later than 2014, and reaffirmed that the enterprise resource planning system would serve as the backbone for the IPSAS implementation. Earlier, the Advisory Committee on

Administrative and Budgetary Questions had expressed concerns that the Secretary-General's contingency plans for IPSAS implementation using a combination of Umoja foundation, existing information systems and workarounds may not be sufficiently robust to ensure successful implementation, while at the same time taking vital resources away from the implementation of Umoja (A/66/536).

58. In February 2012, the Umoja Steering Committee invoked contingency plans to deal with delay in the deployment of Umoja and directed the Umoja and IPSAS projects to work collaboratively to ensure on-time IPSAS implementation, bearing in mind the Advisory Committee's concerns with regard to temporary workarounds. Accordingly, transitional arrangements were formulated jointly by the projects and endorsed by the Management Committee in March 2012.

59. The Board stated that without the support of Umoja, the decision to rely on IMIS remained the only feasible option for the Administration to pursue within the existing deadlines. The Board recognized the sensible approach whereby the IPSAS transition arrangements, based on IMIS and legacy systems, would be part of the contingency plans to tackle potential slippages in the new Umoja deployment plans. While the Board considered that revised approach to be feasible, it would require a very well-designed and well-executed strategy (A/67/168).

60. The Board also noted that further progress with IPSAS implementation was dependent on the IMIS solution being fully determined, scoped, tested and rolled out to key stakeholders quickly and recommended that the Administration clarify how and when the switch from IMIS to Umoja would be made and at the local level and provide clarity to offices away from Headquarters as to how, when and where key accounting data needed to be delivered using IMIS.

61. Changes to IMIS have been designed and will be implemented in order of priority. Many of the changes have already been developed and will be deployed shortly at all IMIS locations (Headquarters, offices away from Headquarters and regional commissions). These enhancements, including a "parallel IPSAS ledger", are designed to facilitate the simultaneous production of United Nations system accounting standards and IPSAS financial statements to accommodate the different fiscal cycles for peacekeeping and non-peacekeeping operations. Two more enhancements are anticipated to be deployed by December 2012; the specifications are being finalized by the Office of Programme Planning, Budget and Accounts and the software changes will be developed and deployed by the Office of Information and Communications Technology.

62. The Accounts Division and the IPSAS and Umoja projects have jointly decided that IMIS will be the "book of record" for the first IPSAS-compliant financial statements for peacekeeping operations (2013/14). This strategy provides insurance against potential Umoja deployment slippage and makes it practical to undertake the dry runs of peacekeeping financial statements at the end of December 2013, as required by the Board. For the same reason, IMIS will be the book of record for non-peacekeeping operations for the first IPSAS financial statements for 2014. The transition to Umoja as the book of record for financial statements will be decided for the second year (2014/15 for peacekeeping and 2015 for other operations) depending on progress of Umoja deployment.

63. The Board has also observed that the completeness, accuracy, reliability and auditability of data in key areas (property, plant and equipment, staff costs,

inventories and revenue recognition) will be reliant on many legacy systems rather than Umoja. Consistency, transferability and basic accuracy of data will be at risk from using a multitude of arrangements.

64. Currently, expenditures are recorded in the accounting systems (IMIS and Sun) based on obligations. Under IPSAS, expenses will be recognized when the Organization has a legal or constructive requirement to pay, which is upon delivery of goods and services. Therefore, "receipt and inspection" will become an integral part of the accounting process.

65. Re-engineering of the receipt and inspection process in field missions commenced in a workshop held in June 2012 and will continue under the leadership of the United Nations Assistance Mission in Afghanistan; the final product will be reviewed by all missions in time for implementation starting July 2013. For United Nations Headquarters and offices away from Headquarters, additional instructions will be issued shortly on how to extract such information from IMIS. To balance the Advisory Committee's concern about diverting resources to temporary solutions and the Board's concern about the accuracy of data, the design envisages automatically extracting receipt and inspection information from IMIS and Mercury and uploading to the new IPSAS ledger in IMIS.

66. For some areas of asset management not covered by any system, such as real estate, an existing software system has been modified to provide a data capture and conversion tool; this Umoja-compliant interim solution was tested in the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (and at United Nations Headquarters) in July 2012 and is scheduled for deployment by October.

67. Asset management at United Nations Headquarters and at offices away from Headquarters lacks a common system and has varying degrees of automation. This necessitates location-specific transitional approaches for asset accounting until Umoja is deployed. In particular, the solution for Headquarters remains a concern due to the volume of assets and the degree of automation, and is being reviewed jointly by the Office of Central Support Services and the Umoja and IPSAS projects. Work is also in progress to address the Board's recommendation that a comprehensive implementation plan engaging all stakeholders and clearly demonstrating how IPSAS statements will be reliably supported with valid transactional data be finalized.

Dry runs of financial statements

68. The IPSAS project plan envisages a dry run for preparing IPSAS-compliant financial statements as of December 2013 for peacekeeping operations and June 2014 for all other areas. This dry run, using real accounting data, will facilitate the Board's audit of the financial statements and assure the United Nations that all gaps in information gathering and processing have been adequately addressed. These two milestones are factored into the transition from current systems to Umoja; depending on the progress of the Umoja deployment, a risk-based approach may be applied to the scope of the dry run.

F. Post-implementation phase

69. During the post-implementation phase, the following activities will become important: (a) complying with IPSAS transitional provisions and (b) implementing the benefit-realization plan.

70. Wherever a transitional provision has been invoked, the Organization has to ensure that it can generate IPSAS-compliant information before the transition period (maximum of five years) ends. This entails ensuring that data cleansing or enrichment is proceeding as planned and systems are operational to reliably capture data for reporting in the financial statements.

71. The change-management focus would shift to benefit realization. While many operational benefits will begin to flow from the initial IPSAS implementation, financial management benefits will be dependent on better use of IPSAS-triggered information. Several changes, such as more detailed information on costs and the availability of an integrated solution for asset management, can facilitate better resource planning and utilization, but will require better and more frequent financial and management reporting. The experience of other United Nations organizations and the guidance of the Task Force would be valuable inputs for this activity.

G. Project budget and expenditures

72. In its resolution 60/283, the General Assembly approved resources for the project, which has an indicative budget of $23.0 million. The budget is, however, approved separately for each fiscal cycle under the regular budget and the support account for peacekeeping operations.

73. The Board has observed that the budget may not be adequate, highlighting that the amount of $23.0 million did not include adjustments to current functional systems and other transitional arrangements. The Board also observed that there was a lack of clarity on funding for IPSAS implementation outside United Nations Headquarters. Feedback from locations suggests that the expectation is for implementation to be funded from existing budgets. There is a significant risk to progress if local implementation teams are underresourced, especially with concurrent demands from other transformation programmes and existing mandates.

74. The Board has highlighted resource constraints on offices and organizations away from Headquarters as a risk factor for the successful implementation of IPSAS and recommended that the Secretariat address the risks posed by limited local resources and determine how this may impact on implementation.

75. The project's expenditure status is shown below.

Expenditure status of the IPSAS project at the United Nations, 2006-2012

(Thousands of United States dollars)

Object of expenditure	*Expenditure*			*Appropriation 2012-2013*	*Expenditure 2012-2013[a]*
	2006-2007	*2008-2009*	*2010-2011*		
Regular budget					
Posts	370.4	1 270.6	1 164.1	1 139.8	293.6
General temporary assistance	–	–	370.6	390.0	255.8
Consultants	–	–	272.9	–	–
Travel	10.2	46.6	149.7	131.1	32.2
Contractual services	16.4	0.3	20.5	118.1	52.2
Other	10.9	24.2	43.6	33.6	1.4
Office of Programme Planning, Budget and Accounts[b]	407.9	1 341.7	2 021.4	1 794.6	635.2
Jointly financed activities[c]	427.1	732.2	–[d]	534.7	–
Subtotal, regular budget	**835.0**	**2 073.9**	**2 021.4**	**2 329.3**	**635.2**
Support account for peacekeeping operations					
General temporary assistance	324.2	547.6	599.1	1 102.3	276.4
Consultants	–	–	232.5	6 594.4	583.4
Travel	–	2.6	27.1	328.1	–
Subtotal, support account	**324.2**	**550.2**	**858.7**	**8 060.8[e]**	**859.8**
Total	**1 159.2**	**2 624.1**	**2 880.1**	**10 390.1**	**1 495.0**

[a] Actual expenditure to 30 June 2012 as at 24 August 2012.

[b] For the bienniums from 2006-2007 to 2010-2011, this was covered under budget section 28B; for 2012-2013, it was under section 29B.

[c] For the bienniums from 2006-2007 to 2010-2011, this was covered under budget section 31; for 2012-2013, it was under section 32.

[d] Requirements are estimated to be fully covered by the balance rephased from previous bienniums.

[e] Represents the prorated appropriation for the period from 1 January 2012 to 30 June 2012, the appropriation for the period from 1 July 2012 to 30 June 2013 and the estimated prorated amount for the peacekeeping period from 1 July to 30 December 2013.

76. The prolonged transition to full Umoja deployment and the need for transitional arrangements using legacy systems has undoubtedly increased the pressure on resources in several areas, such as change management, training, system changes and data preparation. The current approach to mitigate the impact of this pressure has been to conserve resources to provide more support closer to implementation; synergize change-management efforts with Umoja to the extent feasible, consistent with the original project vision to deliver IPSAS through Umoja; and reduce dependence on specialized consultancy firms, wherever practical.

III. Implementation of the International Public Sector Accounting Standards across the United Nations system

77. In 2011, two organizations — the International Atomic Energy Agency and the Universal Postal Union — joined nine earlier successful IPSAS implementers, obtaining unqualified audit opinions on their first IPSAS-compliant financial statements. The nine earlier implementers continued to obtain unqualified audit opinions on their subsequent financial statements.

78. In January 2012, 10 more organizations commenced their IPSAS implementation on schedule and are on track for successful completion. One organization, the Food and Agriculture Organization of the United Nations, recently decided to postpone its implementation from 2013 to 2014 after determining that it was not sufficiently prepared for implementation in 2013 owing to the challenges of preparing the opening balances concurrently with the recent implementation of a new enterprise resource planning system. The remaining two organizations are on schedule for implementation in 2014.

79. Annex II contains a list of the 24 organizations and their IPSAS implementation dates.

80. The organizations continue to work collaboratively through the High-level Committee on Management Task Force on Accounting Standards towards their IPSAS implementation and post-implementation goals. The system-wide project continues to provide support to the Task Force.

A. Interaction with the International Public Sector Accounting Standards Board

81. IPSAS comprises a dynamic set of standards evolving over time, through the IPSAS Board, in response to user needs and changing environments. Regular interaction with the IPSAS Board takes place to assess the impact of new or amended standards and pronouncements and to present the United Nations system's views. In October 2011, the system-wide project prepared an assessment of the risks and opportunities arising from the IPSAS Board's pronouncements and a report on IPSAS adoption status of national governments in January 2012.

82. Currently, the IPSAS Board's highest profile project is to develop the conceptual framework for general purpose financial reporting by public sector entities, which will establish and make explicit the concepts that are to be applied in developing IPSAS and other documents that provide guidance on information included in general purpose financial reports. The IPSAS Board is moving to development of standards and other guidance beyond the general purpose financial statements, based on its understanding of the needs of users of the reports produced by public sector entities, including the objectives of transparency and accountability. Some of the current IPSAS Board projects include: reporting service performance information, long-term sustainability of public finance, and the alignment of IPSAS and the statistical reporting of the International Monetary Fund.

83. The system-wide project, under the guidance of the Task Force, formulated submissions, in response to the following IPSAS Board publications: (a) exposure draft on key characteristics of the public sector and their impact on financial

reporting; (b) consultation paper on reporting service performance information; (c) consultation paper on the conceptual framework phase 4; and (d) exposure draft on financial statement discussion and analysis. Another submission is also in progress, on the consultation paper on the IPSAS Board's work programme for 2013-2014.

B. Accounting guidance

84. A stable system-wide IPSAS policy platform was deemed established in 2007; in subsequent years, the focus was on maintaining the platform and providing guidance on specific IPSAS requirements. The system-wide team prepared three technical issue papers in the current period on: (a) accounting treatment of common services; (b) United Nations Joint Staff Pension Fund accounting treatment and disclosure; and (c) transactions between United Nations system organizations. The need for such types of accounting guidance is becoming a lower priority with the exhaustive coverage of most standards over the last few years.

C. Working focus groups

85. With more organizations developing a deeper understanding of IPSAS implementation, the focus has shifted to the practical implications of IPSAS implementation. The Task Force established working focus groups to provide a forum where organizations could share issues and experiences, to leverage the expertise across the United Nations system and secure a common position to the extent feasible. The working focus groups were on: (a) managing the (financial accounts) closure process, focusing on best practices to adopt during implementation; (b) budget reporting and reconciliation, which shared experiences in developing processes to support presentation of budget information in the IPSAS financial statements and recommended revisiting accrual budgeting at a later stage with more experience of IPSAS implementations; and (c) audit and oversight process, which highlighted the issue of successor-auditor as a risk.

86. Owing to the existence of a larger pool of implementers and more imminent IPSAS implementations, the focus is gradually shifting towards post-implementation issues. One working focus group on post-implementation challenges focused on the ongoing and post-implementation activities of implementers. Organizations are also focusing increasingly on the realization of IPSAS benefits. A working focus group on IPSAS dividends was established to build a database of realized or expected benefits, during and after implementation, and also to review the costs of IPSAS implementation. Two more working focus groups, on statement of internal control and donor reporting, respectively, are being established.

D. Management of accounting diversity

87. More organizations implementing IPSAS provides greater empirical evidence relating to harmonization. The system-wide project has compared the IPSAS-compliant financial statements in two phases; a third phase is in progress, as described below:

(a) As at September 2011, the IPSAS-compliant financial statements of eight organizations were reviewed, focusing on cash and cash equivalents; inventory; property, plant and equipment; intangibles; United Nations Joint Staff Pension Fund disclosure; and related-party disclosure;

(b) As at April 2012, the statements of nine organizations were compared for non-exchange revenue and expenses;

(c) A comparative analysis of liabilities, including provisions and accruals, and deferred revenue, and a review of notes and other supplementary information in the light of the IPSAS Board's exposure draft on financial statement discussion and analysis, are in progress.

88. The system-wide project is also improving the standard note on accounting treatment and disclosure of the United Nations Joint Staff Pension Fund for inclusion in United Nations system organizations' financial statements.

89. IPSAS are principle-based pronouncements, allowing a degree of judgement and diversity in application. Their application to different business models may produce areas of diversity across organizations, which need to be monitored. There is growing recognition that the Task Force can facilitate better analysis and articulation of the options allowed under IPSAS; the establishment of a working focus group to address the accounting treatment of common premises is an example. Similarly, analysis of employee benefits has been planned and the scope is being determined.

E. Other matters

90. The Task Force's sustained relationship with the Technical Group of the Panel of External Auditors has yielded several benefits, namely:

(a) Guidelines for handovers between outgoing and incoming auditor;

(b) Recognition of the importance of each organization documenting the rationale for its accounting policy choices;

(c) Recognition of risks involved in transitioning external auditors;

(d) Acknowledgement that different business models of organizations can lead to diverse application of specific IPSAS standards and that a harmonized approach cannot be at the expense of true and fair reporting;

(e) The Technical Group's willingness to discuss divergent practices after the Task Force has taken a position;

(f) Acknowledgement that accrual budgeting cannot be accepted as an inevitable corollary of IPSAS adoption without adequate analysis of its impact or a review of the business case for its adoption.

91. The system-wide project established a new web-based platform, including discussion forums, to facilitate sharing of information and experiences related to IPSAS by United Nations system organizations. The project also maintains a repository of IPSAS training courses, including a selection of training aids and a course in Spanish and French. In 2012, training materials were shared with two new observers to the Task Force.

92. The system-wide project's current term runs until the end of 2013, with a presumption of continuation until 2015. The system-wide IPSAS Steering Committee continues to guide the work of the project team. A working group of the Steering Committee has conducted an internal review of the project to reassess its future beyond 2013, including strategic directions and resources required. The Task Force and the Finance and Budget Network will be considering the working group's report, and making a recommendation for the consideration of the High-level Committee on Management in September 2012.

IV. Actions to be taken by the General Assembly

93. The General Assembly is requested to take note of the present report.

Annex I

Structure for benefits-realization plan

The benefits-realization plan is being developed under the following structure:

(a) Benefit category. One of the five categories of benefits the Secretary-General promised to the General Assembly in A/60/846/Add.3. Each category will contain more detailed benefits;

(b) Benefit description. The specific area of benefit being considered;

(c) Benefit baseline. The current situation, stated in the context of achieving the benefit, and is the measure for developing the benefits matrix, if relevant;

(d) Benefit outcome. The target state for the benefit to be achieved, qualitatively (improved, increased, more efficient) or quantitatively, where possible (for example, in percentage terms). The final results are supported by intermediate benefit milestones. If the outcome is to be achieved over multiple periods, the benefit milestones would be built into the timeline by periods. Benefits matrices to assign monetary value to quantifiable outcome will be developed, where possible;

(e) Changes required. Captures changes in processes, systems, organizational structures, internal controls, etc., that support the benefit outcome;

(f) Risk management. Addresses the capture, measurement and management of risks associated with non-delivery of the benefit including the development of a mitigation strategy;

(g) Benefit outcome target dates. Presents interim milestones and a timeline for achieving these. Will list target dates for each milestone that supports the outcome;

(h) Benefit accountable managers. The specific offices/senior managers charged with effecting the change to ensure the specific benefit is realized;

(i) Benefit stakeholders. (i) The responsible groups working on benefit realization under the purview of the Accountable Manager; (ii) The groups required to have input into defining/realizing the benefits;

(j) Beneficiaries. The beneficiaries of the value to be realized. Must be informed of the process and interim achievements towards realization of the benefits;

(k) Key enablers. Other projects or initiatives within the Organization that will support benefit realization. Items to facilitate benefit realization should be identified and documented;

(l) Approach and method. Will present matrices and qualitative (quantitative where possible) indicators that will track progress;

(m) Reporting. Will present the form and frequency of reporting to stakeholders, beneficiaries and the IPSAS Steering Committee;

(n) Recent progress. Will be updated monthly with progress towards benefit realization, highlighting any issues for consideration by the IPSAS Steering Committee.

The structure will be applied to identified areas of benefits within the categories of the promised benefits. For example, under "improved stewardship of assets and liabilities", separate sections will address the benefit areas relating to real property, plant and equipment, inventories, intangible assets, receivables, investments, cash and cash equivalents, and employee benefit liabilities, etc.

Annex II

Dates for the implementation of the International Public Sector Accounting Standards

Organization	*Implementation date*
World Food Programme	2008
International Civil Aviation Organization	2010
International Maritime Organization	2010
International Telecommunication Union	2010
Pan American Health Organization	2010
United Nations Educational, Scientific and Cultural Organization	2010
United Nations Industrial Development Organization	2010
World Intellectual Property Organization	2010
World Meteorological Organization	2010
International Atomic Energy Agency	2011
Universal Postal Union	2011
International Labour Organization	2012
United Nations Development Programme	2012
United Nations Population Fund	2012
Office of the United Nations High Commissioner for Refugees	2012
United Nations Children's Fund	2012
United Nations Office for Project Services	2012
United Nations Relief and Works Agency for Palestine Refugees in the Near East	2012
UN-Women	2012
World Health Organization	2012
Joint United Nations Programme on HIV/AIDS	2012
Food and Agriculture Organization of the United Nations	2014
United Nations Secretariat	2014
World Tourism Organization	2014